RAJYA SABHA

Tuesday, the 21st February, 2006/2 Phalguna, 1927 (Saka)

The House met at eleven of the clock,

MR. CHAIRMAN in the Chair.

INTRODUCTION OF MINISTERS BY THE PRIME MINISTER

THE PRIME MINISTER (DR. MANMOHAN SINGH): Mr. Chairman, Sir, with your permission, I wish to introduce to you and through you to his august House some of the colleagues who have been inducted in he Council of Ministers but who could not be introduced to the House earlier:

Shrimati Ambika Soni	—	Minister of Tourism and Culture
Shri Shibu Soren	—	Minister of Coal
Shri Dinsha J. Patel	—	Minister of State for Petroleum and Natural Gas

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ORAL ANSWERS TO QUESTIONS

FDI in assets reconstruction companies

*41. SHRI C. RAMACHANDRAIAH: Will the Minister of FINANCE be pleased to state:

(a) whether Government have decided to allow Foreign Direct Investment (FDI) upto 49 per cent in Assets Reconstruction Companies (ARCs) set up to buy non-performing assets from banks;

(b) if so, the details thereof and the reasons therefor;

(c) the number of cases handed over to the above company for disposal by banks and financial institutions;

(d) the amount of funds involved in these cases;

(e) the funds to be received by Banks/FIs; and

(f) the time limit set for disposal of cases?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (f) A statement is laid on the Table of the House.

Statement

(a) and (b) Yes, Sir. The Government of India, *vide* press release dated November 8, 2005 has permitted Foreign Direct Investment (FDI) upto 49 per cent in the equity capital of Asset Reconstruction Companies (ARCs) registered with the Reserve Bank of India (RBI). The permission has been accorded with a view to facilitate resolution of Non-Performing Assets (NPAs) of the Indian banking system by the ARCs and to enhance the possibility of banks realising better value for their NPAs drawing from the expertise and resources of foreign institutions having international experience in management of stressed assets.

(c) and (d) None of the four ARCs granted Certificate of Registration by the RBI so far has any FDI participation in its equity. Asset Reconstruction Company (India) Limited (ARCIL) is the only ARC that has commenced its operations. ARCIL has reported that as on December 31, 2005, they had acquired 375 cases from banks/FIs having total due of Rs. 17,783/- crore from 27 banks/FIs at an acquisition price of Rs. 4,359/- crore.

(e) The amount realized by the Bank normally is the price received by it from the ARC acquiring the stressed assets plus a percentage of the net gain realized on the disposal of the reconstructed assets by the ARC.

(f) RBI has specified a five year timeframe for realization of assets by ARCs from the date of acquisition.

SHRI C. RAMACHANDRAIAH: Sir, it is a very good concept that has been introduced in our country by creating ARCs for realising the bad debts of the banks. Sir, in this process we have issued security receipts to the banks from whom the bad debts are being purchased. So, my first supplementary is this. The very purpose of issuing the security receipts is to enhance the realisable value of the NPAs. If such is the case, whether there is any thinking on the part of the Government to allow these security receipts to be traded in the stock market so that the FIIs enter the market and trade all these securities, so that the liquidity of both the ARCs and the banks can be improved which is the purpose of creating these ARCs.

SHRI P. CHIDAMBARAM: Sir, the Securities Act is being amended and the amendment is now pending. It is part of the Bill that securitised debts must be traded on the capital market. Once the Bill is passed by Parliament, that will happen.

SHRI C. RAMACHANDRAIAH: Sir, my second aspect of the first supplementary has not been answered, that is, whether FIIs will be allowed to operate in the stock market.

SHRI P. CHIDAMBARAM: That is only after the amendment is passed. We cannot anticipate an amendment to be passed by Parliament. Once the amendment is passed, then we will lay down the guidelines.

SHRI C. RAMACHANDRAIAH: Sir, my second supplementary is this. Thanks to the Finance Minister and his predecessors who have reduced these NPAs from 6.5 per cent in 2001 to 1 per cent in 2005-06, as per the data that is available. But how much is by way of recovery? You were able to reduce 5 per cent of the total advances as NPAs—how much is by way of recovery, how much assets the banks have sold to these ARCs and how much amount has been written off. You see the very purpose is to clinch the balance sheet. So, how much of it has been written off, how much has been collected and how much has been sold to the ARCs?

SHRI P. CHIDAMBARAM: Although it strictly does not arise out of this question, but let me attempt an answer. What is being sold to the ARC, that is actually only one ARC, which has effectively started functioning now, namely, ARCIL. I have given the particulars in paragraphs (c) and (d) of the answer. But that represents only a small portion of the NPAs. ARCs will take root and will expand their operations hopefully in this calendar year or the next financial year. As far as reduction of the NPAs is concerned, the hon. Member is absolutely right. The reduction happens in three ways.

One is by recovery. One is by write off. In write off, there are two kinds of write off. One is a technical right off where the loan is still shown on the books of the bank at a nominal value of rupee one and the other is a complete write off and the third is by up-gradation. Now I am not in a position to give you now although I have the figures, bank-wise figures. Broadly speaking, I have insisted with public sector banks that the amount actually written off should not be larger than the amount of cash recovery in that year. Most banks are able to make cash recovery and we are

monitoring whether the cash recovery in that year is at least a rupee more than what is written off. There are some banks which are not able to make as much recovery as they write off but the goal is to ensure that cash recovery is more than the amount totally written off.

DR. K. MALAISAMY: Sir, as per the statement of the Minister the total dues from the banks is Rs. 70,783 crores whereas the acquisition price is only Rs. 4359 crores. According to me, the gap is very, very wide. Will there be any other source who can acquire at a better price?

SHRI P. CHIDAMBARAM: These are not matters which can be decided by the Government. This has to be decided by the quality of the NPA, the quality of the asset and the appetite in the market for such assets. Today, there is only one ARC effectively functioning because this is a new idea, a new institution has come into being. But there are others on the anvil, as I have said in the answer. If there is more competition in the market, surely I think the price at which non-performing assets are sold will improve. When three or four ARC's compete with the same asset, I think the price will improve. But I think these are matters which should be left to the market. We cannot decide the price of NPA unless we look at the quality and appetite in the market.

SHRI C. RAMACHANDRAIAH: There seems to be some ambiguity in the reply of the Minister. Out of the 17,000 crore assets, they should be able to realise Rs. 4000 crores. The balance is Rs. 13,000 crores which has to be invariably written off. So, you say that the realisable value should be one rupee more than the written off value. There is incongruity in your answer.

SHRI P. CHIDAMBARAM: No, no, I will answer that.

PROF. P.J. KURIAN: What is the actual quantum of NPA as on today? The hon. Minister just now said that the value realised should be at least one rupee more than what is written off. That means ten thousandth rupee is written off and ten thousand-one rupee is to be realised in cash. The most important thing is what are the guidelines or principles on which write off is being made. Is the bank independently doing it or has the Ministry given any directions with regard to the guidelines to be observed on writing off the loans? It is because big amounts are being written off without adequate justification and research. Have you got a policy on that? I would like to know about it.

SHRI P. CHIDAMBARAM: Sir, the total amount of non-performing assets of public sector banks as at the end of March 2005 is Rs. 47,696 crores of which the Nationalised Banks is Rs. 31,964 crores and State Bank group is Rs. 14,804 crores and IDBI is Rs. 924 crores. These figures can be furnished even bank-wise if the hon. Member wants. So, I think there is a misunderstanding or maybe I did not communicate effectively. There are two separate issues. What is being sold now by NPAs to ARCs is about Rs. 17,000 worth of NPAs, actually Rs. 17,783 crores of NPA has been sold to the ARC for Rs. 4359 crores. That is a separate transaction. The difference, of course, as Mr. Ramachandraiah says has to be written off. Each bank will write it off from the balance sheet.

Each bank will write it off from its balance sheet. But, the bulk of this is really from the private sector banks. So, really, it is for the private sector banks to decide what is right or wrong.

The other part of the answer which I gave was, as a general guideline, I have told public sector banks that when you write off an amount, finally and fully, make sure that in the same year the recovery department is able to recover from other NPAs, at least, an amount equal to the amount you are writing off. If a bank proposed to write off, say about Rs. 500 crores of NPA fully I want the bank to ensure that the recovery department recovers, at least, Rs. 500 crores in that year from other NPAs so that the recovery and the write off are more or less equal so that owner's funds are not affected. These are two separate issues.

SHRI DIPANKAR MUKHERJEE: Sir, my query, though is not within the ambit of the main question, the hon. Minister, I am sure, would like to reply to this.

MR. CHAIRMAN: Why are you putting it then?

SHRI DIPANKAR MUKHERJEE: I would like to know from the hon. Minister whether it is a fact that Rs. 77,000 crores of NPAs have been written off during the last three years. This is as per the ARC's Report. The hon. Minister says that the present status of the NPAs of the public sector banks is Rs. 47,000 crores. I would like to know whether this figure of Rs. 47,000 crores is after writing off of Rs. 77,000 crores of NPAs of the whole banking system during the last three years.

SHRI P. CHIDAMBARAM: Sir, I collect the figures and send it to the hon. Member.